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Predict Rauner will support tax increases

By Jim Nowlan

As per statutory requirement, the 2011 temporary Illinois individual income tax rate has been rolled back, as of January 1, from 5 percent to 3.75 percent, which Gov. Bruce Rauner espoused emphatically during his 2014 campaign.

Nevertheless, I predict that Rauner will ultimately support increasing taxes during his first year in office in order to craft a balanced state budget.

Rauner has been appointing capable Establishment Republicans from within the state to staff his government.

The new chief executive is also bringing in experienced out-of-state budget experts, including a former governor of Hawaii, to help tame a budget trajectory he correctly calls “unsustainable.”

We will get an inkling, but not the details, of how he might tame the budget beast during his required mid-February speech to the legislature on the budget.

In this speech, Rauner will review the lamentable condition of the state budget, which will require more revenue than the present, recently curtailed, tax system will provide.

Yet the new governor cannot, politically, propose increases in revenue, the opposite of what he called for in his campaign, in his maiden budget speech.

I think Rauner will instead call on the legislature to join him and his talented staff over the coming year to craft a multi-year solution to the budget problem. After all, it took us years to reach our present deplorable state of affairs, and it will take years to get out of it.

The only way to develop a sustainable budget over the coming years is to create a revenue system that grows at a rate faster than the underlying expenses.

The present revenue system grows at about 2 percent a year on average, slower than the rate of expenditure increases. Spending boosts greater than 2 percent have been driven by such things as multi-year contracts with state employee unions (97 percent of all state employees belong to unions), being negotiated as I write this.

In addition, for decades there have been seemingly irrepressible annual increases in spending for Medicaid, far beyond the rate of inflation. This is the $20 billion a year system of health care for one of every four Illinois residents.

Before budgeters can even hunker down to controlling the costs of state programs, they must set aside almost $8 billion of the $31 billion general funds budget for pension obligations.

This lofty amount is to continue for decades into the future a process of aligning the state's puny pension reserves with future obligations, which the state high court has signaled cannot be reduced.

[In contrast, Wisconsin needs spend only about $1 billion a year to keep its pension system fully funded. The Wisconsin system is about the same size as that in Illinois because the smaller state includes local government employees in its system.]

In addition, several billion dollars must be applied annually to state debt payments. And of course we must consider the $7 billion or more in unpaid state bills.

The other major expenses are those for education and public colleges and universities, which have been shorted in recent years, and which Rauner pledges to increase, not cut.

Then we must fund services for the physically and mentally disabled, 50,000 prison inmates, children in the care of the state, and other social services, all of which have been cut in recent years.

The amount we spend to run state government day to day is small compared with the funds we distribute to people. Even cuts of 20 percent in state government's administrative agencies, as suggested by Rauner's budget people, would not come close to balancing the state budget.

So I think the governor and legislature will ultimately agree to restore much of the former 5 percent income tax rate, which was cut back just a few weeks ago, for a period of one or two years. During this period, the politicos will try to strike a future, grand restructuring of the revenue system and impose as yet unspecified cost controls.

This revenue revamp would include broadening of the income and sales tax bases and elimination of business and individual exemptions. For example, Illinois is one of only three states with an income tax that exempts *all* pension income from taxation. And at last count, there were more than 70 exemptions from the sales tax.

This restructuring will prove, understandably, exquisitely difficult politically in a legislature where members live for re-election. But at least the tough votes would not have to be cast this year.